

IV. SYSTEMICALLY IMPORTANT PAYMENT AND SETTLEMENT SYSTEMS

PAYMENT AND SETTLEMENT SYSTEMS OF EESTI PANK

In the fourth quarter of 2010, around 99,965 payments a day were settled on average in the interbank payment and settlement systems managed by Eesti Pank at a total value of 13.8 billion kroons (880 million euros). With the adoption of the euro on 1 January 2011, Eesti Pank closed the real-time gross settlement system EP RTGS. Since then, Eesti Pank manages two interbank payment and settlement systems – the ESTA and **TARGET2-Eesti**. In the first quarter of 2011, about 92,000 payments a day were settled in these systems at the total value of 1,268 million euros.

The data for the first quarter of 2011 reveals that after the euro changeover the value of the daily payments settled in the payment and settlement systems of Eesti Pank has increased by about 390 million euros. The reason for this is the rise in the value of TARGET2-Eesti (see Figure 1). The value of TARGET2-Eesti grew primarily for three reasons: the majority of payments settled so far in the EP RTGS are now settled in TARGET2-Eesti as of 2011; banks use TARGET2-Eesti for the settlement of cross-border payments, and they actively use the monetary policy instruments of the Eurosystem. So far, the deposit facility has been the most popular monetary policy instrument used by Estonian banks. Overnight and long-term deposits have been made on 302 occasions at the total value of 6.12 billion euros (about 97.1 million euros a day).

The majority of interbank payments are still settled in the Settlement System of Ordinary Payments, the **ESTA**. In the fourth quarter of 2010, the number of payments settled in the ESTA was 5% and the value was 8% higher than in the preceding six months. The beginning of 2011 did not entail the usual seasonal downturn in the value and number of payments settled in the ESTA. The average size of payments settled

Figure 1. Use of Eesti Pank's payment and settlement systems (average daily value)

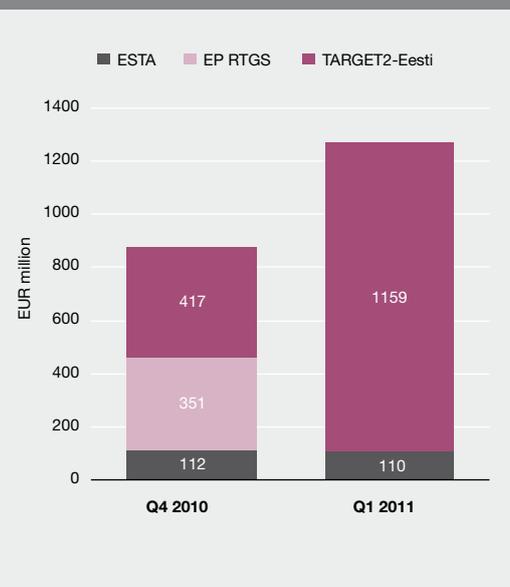


Figure 2. Average number and value of payments processed in ESTA per day

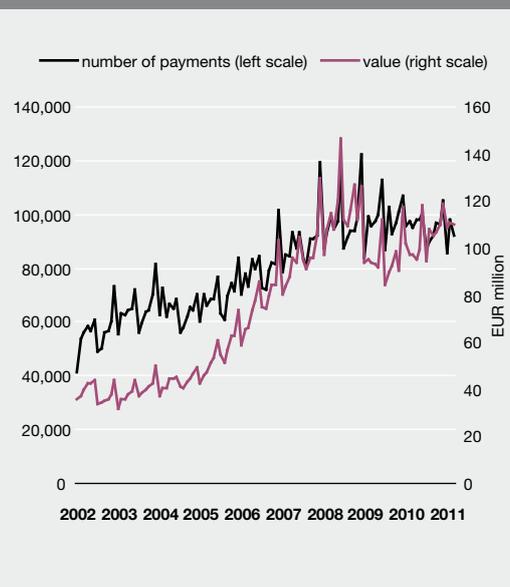
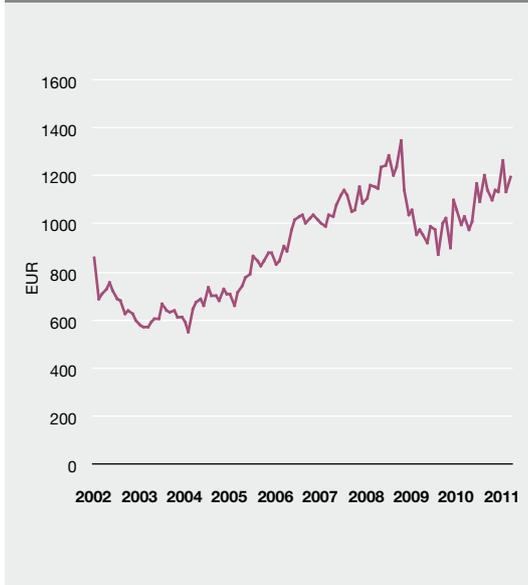


Figure 3. Average size of ESTA payments

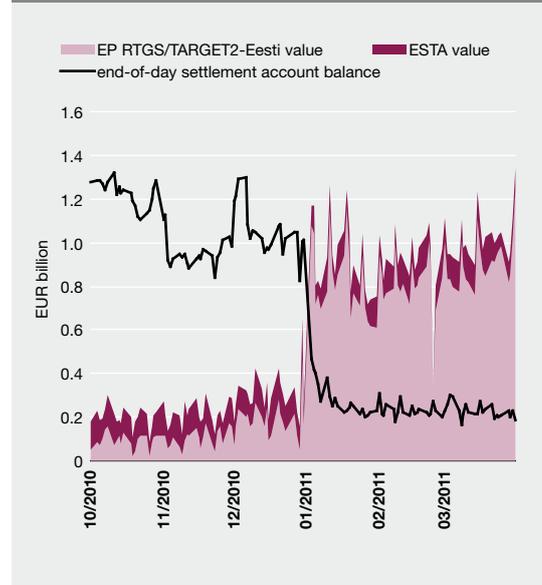


in the ESTA has been on the rise since the second half of 2009 and reached 17,586 kroons (1,124 euros) in the fourth quarter of 2010 (see Figures 2–3).

RISKS IN THE PAYMENT AND SETTLEMENT SYSTEMS AND THE OVERSIGHT ASSESSMENT

There were no such incidents in the operation of the Estonian payment and settlement systems in the fourth quarter of 2010 or the first months of 2011 that would have threatened financial stability or significantly hindered the performance of settlements. On a few occasions, the performance of the payment and settlement systems of Eesti Pank has been hampered because of the materialisation of operational risks stemming from framework changes, but this has not caused the system to experience an extended liquidity risk that would have had an impact outside the payment and settlement system.

Figure 4. Daily value of ESTA and EP RTGS/TARGET2-Eesti compared to the end-of-day settlement account balances



Owing to the reduction of the reserve requirement, banks no longer have a liquidity buffer for making payments in Eesti Pank's payment and settlement systems. The reduction of the reserve requirement to 7% as of 1 November 2010 meant that in November and December 2010, banks had about 15.7 billion kroons on their Estonian kroon accounts in Eesti Pank on a daily basis. In the first months of 2011, the banks' account balance in Eesti Pank amounted to approximately 252 million euros (3.9 billion kroons). The turnover of Eesti Pank's payment and settlement systems, the ESTA and TARGET2-Eesti, was considerably higher than the banks' account balance in the first months of 2011 (see Figure 4).¹ Despite the decrease in the liquidity

¹ Until the end of 2010, Figure 4 reflected banks' Estonian kroon account balances at Eesti Pank and the value of the ESTA and EP RTGS, while foreign exchange transactions and collateral transactions of the ESTA were excluded from the value of the EP RTGS. Since 2011, this figure reflects banks' euro account balance and the value of the ESTA and TARGET2-Eesti (only the collateral transactions of the ESTA have been excluded from the value of TARGET2-Eesti). The data regarding TARGET2-Eesti (the balance of euro accounts and the value of TARGET2-Eesti) were not included in the data for 2010.

deposited in Eesti Pank, the banks operating in Estonia have so far only once opted for intraday liquidity provided by Eesti Pank in the TARGET2-Eesti. However, it has occurred a few times that a bank has not monitored the fulfilment of its reserve requirement at the end of the reserve maintenance period or that a bank has had insufficient funds on its account to make a collateral transfer to the ESTA in order to start its settlement day in the ESTA. Generally, these momentary liquidity shortages have stemmed from operational problems and banks' little experience in liquidity management, and these situations have ended up positively.

In the fourth quarter of 2010, minor failures occurred in the operation of both the EP RTGS and the ESTA, and as a result, in the fourth quarter the availability of the EP RTGS stood at 99.86% and that of the ESTA at 99.74%. The availability of TARGET2-Eesti remained at 100%.

In the first quarter of 2011, the ESTA and TARGET2-Eesti operated smoothly with 100% availability. Due to the closure of the EP RTGS as of 2011, its availability is no longer monitored (see Figure 5).

The euro changeover in the Estonian Central Securities Depository was successful, including the simultaneous introduction of the new securities settlement system Depend.

Figure 5. Availability of interbank settlement systems

